UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/C.2/52/2
2 October 1997
ENGLISH
ORIGINAL: ENGLISH/SPANISH

Fifty-second session
SECOND COMMITTEE
Agenda item 95

MACROECONOMIC POLICY QUESTIONS

Letter dated 29 September 1997 from the Permanent Representative of Venezuela to the United Nations addressed to the President of the General Assembly

I have the honour to transmit to you the text of the communiqué issued by the ministerial meeting of the Intergovernmental Group of Twenty-four on International Monetary Affairs, held on 20 September 1997 in Hong Kong, China, under the chairmanship of Venezuela.

I should be grateful if you would have this letter and its annex distributed as a document of the United Nations under agenda item 95 of the fifty-second session of the General Assembly, entitled "Macroeconomic policy questions".

(Signed) Ramón ESCOVAR-SALOM
Permanent Representative

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ANNEX

Communiqué of the Intergovernmental Group of Twenty-four on International Monetary Affairs, issued on 20 September 1997

Ministers of the Intergovernmental Group of Twenty-four on International Monetary Affairs held their fifty-seventh meeting in Hong Kong, China, on 20 September 1997. Mr. Antonio Casas Gonzalez, President of the Central Bank of Venezuela, was in the chair, with Mr. Abdelkrim Harchaoui of Algeria as First Vice-Chairman, and Mr. G. L. Peiris of Sri Lanka as Second Vice-Chairman. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund; Mr. James Wolfensohn, President, World Bank; Mr. Driss Jettou, Chairman, Development Committee; Mr. Rubens Ricupero, Secretary-General, United Nations Conference on Trade and Development; Mr. Aziz Ali Mohammed, G-24 Liaison Office; Mr. G. K. Helleiner, G-24 Research Coordinator; Mr. Y. Seyyid Abdulai, Director-General, Fund for International Development of the Organization of Petroleum Exporting Countries (OPEC); Mr. Abdurahman N. Hersi, Islamic Development Bank; Ms. Katherine Hagen, Deputy Director-General, International Labour Organization; Mr. Liu Jibin, People's Republic of China; Mr. Abdulaziz M. Al-Turki, Saudi Arabia; and Mr. Christian Stals, South Africa.

The meeting of the Ministers was preceded on 19 September 1997 by the seventieth meeting of the Deputies of the Group of Twenty-Four, with Mr. William Larralde of Venezuela as Chairman, Mr. Hadji Babaarnmi of Algeria as First Vice-Chairman, and Mr. Lal Jayawardena of Sri Lanka as Second Vice-Chairman.

I. WORLD ECONOMY AND MONETARY SYSTEM

1. Developments in recent years confirm the leading role assumed by the developing world in the growth of the global economy and its significant input to the expansion of world trade. This increasing contribution reflects the stabilization and reform efforts that many countries have pursued in order to maintain sustainable growth with price stability. Ministers consider that this trend of faster growth of the developing world, relative to the industrial countries, should be appropriately reflected in the decision-making processes of the Bretton Woods institutions (BWIs).

2. Growth prospects in Asia are being affected by the adverse shock to the dynamic South-East Asian region resulting from the recent turmoil in financial markets and by the effects of this turmoil on Japan's recovery, given that this region provides large markets for Japan's exports and capital. While recognizing that domestic policy weakness has contributed to this crisis, Ministers emphasize the need to acknowledge the role of speculative activities and other factors in the external environment that provided the backdrop against which the financial crisis spread, through contagion effects, to a number of countries both within and outside the region, including those with sound macroeconomic fundamentals. Ministers underline the need to explore the interplay of domestic and external factors in the onset and containment of crises.

3. Ministers welcome the timely response of the International Monetary Fund to the immediate problem in South-East Asia and the substantial support package mobilized by Thailand's neighbouring countries as a demonstration of regional solidarity. The Emergency Financing Mechanism, established in the wake of the Mexican crisis, was activated to contain the crisis and underscores the need to set up complementary and coordinating mechanisms within the World Bank Group and regional institutions to expedite the processes for the provision of financial support. Ministers consider this essential to deal with the need to buttress and impart confidence in domestic financial systems and banking sectors in particular, that are exposed to the volatility of markets.

4. Recognizing the potentially adverse impact of large fluctuations among the major international currencies on developing countries, Ministers consider it imperative that the Fund fully exercise its powers to ensure effective surveillance over the macroeconomic policies of the countries involved in the management of these currencies. They believe that, in the perspective of an emerging tripolar system, the issue of reform of the international monetary system should be brought forward on the agenda of the world community.

II. CAPITAL ACCOUNT LIBERALIZATION

5. While recognizing the benefits for the world economy of greater freedom of capital movements. Ministers emphasize that the capital account liberalization process could put additional stress on the economies that are already straining to adjust to globalization. Ministers agree that, in particular circumstances, precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management.

6. Ministers agree to support further work on the orderly liberalization of capital movements as a prelude to any amendment of the Fund's articles. They emphasize the need for a progressive and flexible approach, even under any transitional arrangements, to enable members to adjust the pace and sequencing of the liberalization of their capital account, in the light of their policy, institutional and financial conditions. While reiterating that the Fund should play the leading role among international organizations in promoting capital account liberalization, Ministers call attention to the need for the Fund to avoid institutional overstretch, as well as duplication and potential conflicts with other relevant agencies and agreements. They also emphasize the need for adequate technical assistance and financing assurances to help countries to move towards capital account convertibility. In addition, they stress that (a) the liberalization of the capital account should not be made a condition for the use of Fund resources; (b) restrictions arising from measures taken by members for prudential and financial market development purposes should benefit from flexible approval policies; and (c) the treatment of foreign direct investment and restrictions for security reasons should be outside Fund jurisdiction.

III. GOVERNANCE

7. Ministers reiterate their commitment to the principles of good governance - which include transparency, accountability and the rule of law. While noting

the recent efforts of the Fund and the World Bank to clarify their potential roles within their respective mandates in the strengthening of governance and reduction of corruption at the national and international levels, they re-emphasize the need to avoid the application of conditionalities based upon subjective judgements in these areas and to ensure uniformity of treatment of members based on objective criteria. Ministers express full support for cooperative international efforts to combat transnational bribery, money laundering and other forms of economic crime.

IV. SPECIAL DRAWING RIGHTS (SDRs) AND FUND QUOTAS

8. Ministers welcome the agreement reached on a common benchmark ratio of net cumulative allocations to the Ninth General Review of Quotas of about 29.32 per cent, designed to address the equity issue. They emphasize that this one-time measure does not diminish or preclude the need for a general allocation. In this context, they also welcome the automatic allocation mechanism for new participants and note the treatment of countries in arrears with the Fund. Furthermore, Ministers stress the need to strengthen the role of the SDR in the international monetary system and intend to explore proposals to this end.

9. Noting the rapid action by the Fund in relation to the financial crisis in Thailand, Ministers stress the need, as in the earlier case of Mexico, for Fund support involving exceptional access in terms of quotas. All member countries facing similar emergencies should receive commensurate support on the basis of the principle of uniformity of treatment. These events underscore the need for a substantial expansion of the Fund's own resources and more predictable and positive Fund response to financial emergencies. Ministers reiterate the need for a meaningful increase in quotas, which should be predominantly equiproportional. In this context, Ministers endorse assurances regarding the maintenance of the representation of developing countries on the Fund's Executive Board and the modernization of the formulas for determining quotas in future reviews.

V. MOBILIZATION OF RESOURCES AND DEBT ISSUES

10. Negative developments occurred with respect to official development assistance (ODA), as evidenced by the proposed reduction in the level of commitments in the aid budget of Japan - once the largest donor. The percentage of combined donor GNP devoted to ODA has continuously declined over the past 50 years and in 1996 fell to its nadir. Ministers emphasize the need to reverse this declining trend in order to help recipient countries alleviate poverty and reach sustainable growth. In this regard, they commend the ODA efforts of Denmark and welcome the recent initiatives by the United Kingdom to embrace the target of 0.7 per cent of GNP.

11. Ministers urge that intensive efforts should continue to secure adequate funding for IDA. They stress that the burden-sharing arrangements for the replenishment of IDA-12 should bring back the level of funding to that of IDA-10 in real terms - the level that is commensurate with the needs of the poorest

countries. Looking to the future, Ministers reiterate their request for an in-depth exploration of complementary funding mechanisms. They call upon the donor community to support the Partnership for Capacity Building in Africa Initiative in order to optimize the use of IDA resources.

12. Ministers urge that a consensus be reached without delay in the Board of the Multilateral Investment Guarantee Agency (MIGA) on additional operating and callable capital for enlarging its resources to support a 10-year underwriting strategy. This would enable MIGA to continue to diversify its guarantee activities at a pace that responds to the growing involvement of the private sector in infrastructure and other projects in the developing countries.

13. Ministers express concern about the slow progress made to date in implementing the debt initiative for the Heavily Indebted Poor Countries (HIPCs). While they note the preliminary agreements to implement the HIPC initiative, they call for a timely finalization of those agreements in order to allow eligible countries to benefit from the initiative. They appreciate the World Bank Board's recommendation to allocate an additional US $250 million from the IBRD surplus to the HIPC Trust Fund to meet the Bank's share of debt relief, as well as the authorization by the Fund's Board of a transfer of up to SDR 180 million from the Enhanced Structural Adjustment Facility (ESAF) Trust Reserve Account to finance special ESAF operations under the HIPC initiative. Ministers emphasize the need for Paris Club members and other bilateral official and commercial creditors to adhere to the principle of fully proportional burden sharing. In this regard, Ministers note with appreciation the debt relief being provided by some developing countries under the aegis of the Paris Club, and they express the hope that these countries will not be called upon to bear a disproportionate share of the overall provision of concessional resources to the HIPCs. Ministers again urge that, in order to allow beneficiary countries to reach debt sustainability rapidly and avoid additional costs associated with delays in debt relief, the period between the decision and completion points should be shortened and interim assistance should be provided.

14. Ministers reiterate their strong support for the continuation of ESAF operations and express serious concern about the lack of consensus on its funding modalities in the interim period (2001-2004). They stress the urgent need for additional financing from the sale of a portion of the Fund's gold as a valuable supplement to existing resources.

VI. UNITED NATIONS AND BWI COLLABORATION

15. Ministers note the recent adoption by the General Assembly and the Economic and Social Council of the United Nations of several resolutions relating to the need to strengthen the relationship and collaboration between the United Nations and the Bretton Woods institutions, at both the intergovernmental and secretariat levels. Ministers express the view that the idea of organizing an international conference with a broad agenda on the financing of development is timely, and to assure its success, this should be a joint endeavour of the United Nations and the Bretton Woods institutions.

VII. NOTE OF APPRECIATION

16. Ministers express their profound gratitude for the invitation and hospitality provided by the Chinese authorities and the Hong Kong Monetary Authority, and they thank them for the excellent arrangements made for the meetings.

VIII. DATE AND VENUE OF NEXT MEETING

17. The G-24 Ministers will meet again in a special session in Venezuela in January 1998.

UNITED
NATIONS

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General Assembly

Distr.
GENERAL

A/C.2/52/3
16 October 1997

ORIGINAL: ENGLISH

Fifty-second session
SECOND COMMITTEE
Agenda item 97 (b)

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION: IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990s

Letter dated 2 October 1997 from the Permanent Representative of Bangladesh to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith the text of the Declaration adopted by the Seventh Annual Ministerial Meeting of the Least Developed Countries, held at United Nations Headquarters on 30 September 1997.

I would like to request you to arrange to have the present letter and its annex circulated as an official document of the General Assembly under agenda item 97 (b).

(Signed) Anwarul Karim CHOWDHURY
Permanent Representative

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Annex

DECLARATION OF THE SEVENTH ANNUAL MINISTERIAL MEETING OF THE LEAST DEVELOPED COUNTRIES

We, the Ministers of the least developed countries, meeting at United Nations Headquarters during the fifty-second session of the General Assembly, pursuant to the decision of the Dhaka Declaration of February 1990,

Recalling the Paris Declaration and the Programme of Action for the Least Developed Countries for the 1990s and the outcome of the High-level Intergovernmental Meeting on the Mid-term Global Review of the Programme of Action for the Least Developed Countries for the 1990s;

Recalling the Ministerial Declaration adopted on 30 September 1996 during the fifty-first session of the General Assembly;

Having assessed progress in the implementation of the Programme of Action, solemnly declare the following:

1. We are deeply concerned that the overall rate of growth of the least developed countries as a group declined in 1996 compared with 1995, despite the painstaking efforts undertaken by the least developed countries. The lack of progress in the implementation of Paris Declaration and the Programme of Action for the Least Developed Countries for the 1990s and the poor outcome of the structural adjustment measures are largely attributed to the failure of the international community to come up with the level of committed support to the least developed countries.

2. The disbursements to the least developed countries of official development assistance, their overwhelmingly dominant source of external resources, have continued to decline in real terms. The ratio of official development assistance flows to the least developed countries to the gross national product of countries of the Development Assistance Committee fell to 0.06 per cent in 1995, the lowest level on record. This declining trend is in sharp contrast with the commitment made in the Programme of Action to provide the least developed countries with significant and substantial increases in the aggregate level of external support. We call upon our development partners to take urgent actions to reverse the negative trend and ensure that adequate resources to support the efforts of the least developed countries are made available.

3. The strenuous structural adjustment and economic reform measures undertaken by the least developed countries have produced a modest growth in some countries and the least developed countries are committed to continue and deepen the process of reform. In order for this initiative to take deep roots, the necessity of support from the development partners in providing adequate external assistance, debt relief and easy access to technology, product and service markets can not be overemphasized. In this regard, we welcome the initiative "Africa: Partnership for Development", taken by the G-7 Summit in Denver, and hope that importance will be given to its speedy implementation. We also hope that the call at the Lyons G-7 Summit last year for giving

preferential access to products from the least developed countries will materialize soon.

4. The share of the least developed countries in world exports continues to be under 0.04 per cent, indicating their growing marginalization in world trade. Trade liberalization measures in many cases have been adopted unilaterally by many of the least developed countries, without expansion of access to markets of developed economies. Major declines in export prices in recent months and sharply rising import prices serve to indicate that the prospect of the least developed countries' losing out further in the process of globalization and liberalization is very real. Indeed, it has been estimated that the least developed countries stand to lose up to $600 million a year from the globalization process.

5. The least developed countries have been bypassed by international foreign direct investment flows despite increasing magnitude and dynamism of the current investment boom. Indeed in a large number of the least developed countries the ratio of foreign direct investment to gross domestic product has fallen over the past decade. Out of $350 billion of world foreign direct investment flows in 1996, the developing countries received a record inflow of $129 billion. However, foreign investment flows have remained limited to a handful of developing countries, and the net inflow to the least developed countries has merely been around $1 billion. This has occurred in spite of general acknowledgement by the private sector of the existence of investment opportunities in the least developed countries. Institution of financial support and specific incentives by the home countries are necessary to encourage investment flows. We reiterate that under the present condition foreign direct investment cannot be a substitute for official development assistance in the least developed countries. The least developed countries desperately need official development assistance for capacity-building, establishment of basic institutional infrastructure and strengthening of the existing fragile means of development.

6. Since investment flows are often tied up with transfer of technology, the least developed countries are mostly left out of the know-how for achieving development. The international community should promote, facilitate and finance access to sound technology on preferential terms taking into account the special need of the least developed countries. In order to encourage transfer of technology and corresponding know-how from the private sector, specific financial and other incentives should be instituted.

7. The external debt situation of the least developed countries continues to remain a matter of great concern. The debt burden has continued to grow: between 1990 and 1995, the combined debt stock increased by $20 billion. Clearly, the debt relief measures currently in place have proved to be grossly inadequate. Without a decisive reduction in debt stock and debt service obligations, it would not be possible to attain any meaningful growth rate.

8. We consider the Highly Indebted Poor Countries initiative of the World Bank and International Monetary Fund as a step in the right direction. However, the effectiveness of the scheme will depend critically on the speed of implementation and the extent of relief provided. While a majority of the least

developed countries are included under the Highly Indebted Poor Countries initiative, the debt relief requirements of the other least developed countries should also be promptly and adequately met. We also appeal to all creditor countries to cancel fully all outstanding bilateral official debt owed by the least developed countries.

9. We welcome the WTO Plan of Action for the least developed countries, adopted at the first Ministerial Meeting of the World Trade Organization, held in Singapore in December 1996. This Plan of Action, which provides a framework for according further market access concessions to the least developed countries and for undertaking actions to improve their supply capacity, needs to be given full and adequate content. We call upon our trading and development partners to undertake, at the high-level meeting on the least developed countries, to be held in Geneva on 27-28 October 1997, further market access commitment, including duty-free access provision for all exports from the least developed countries. We also urge that an integrated initiative be agreed upon at that meeting on providing the least developed countries with coordinated and substantially increased technical cooperation in trade and trade-related areas with a view to strengthening their supply capacity of exportable goods and services, in line with the Marrakesh Ministerial Decision on Measures in Favour of the Least Developed Countries.

10. In this connection, we express our appreciation to the Secretary-General of the United Nations Conference on Trade and Development for his initiative, in cooperation and coordination with the relevant international organizations, to assist the least developed countries to formulate integrated country programmes for strengthening the supply capacity of exportable goods and services, pursuant to the relevant decision of the Trade and Development Board at its annual session last year. We note the progress that has been made so far in this regard, and urge all development partners and other countries in a position to do so to contribute generously to the United Nations Conference on Trade and Development Trust Fund for the Least Developed Countries, which aims to provide start-up costs for integrated country programmes. We welcome the cooperation among concerned organizations, particularly the United Nations Conference on Trade and Development, the World Trade Organization, the International Trade Commission, the United Nations Development Programme and the regional commissions in the process of formulation and implementation of the integrated country programmes. We also strongly stress that the above actions in trade and trade-related areas will need to be complemented by full and expeditious implementation of all special and differential measures for the least developed countries contained in the Final Act of the Uruguay Round, the outcome of the Mid-term Global Review of the Programme of Action for the Least Developed Countries and other agreements. We further emphasize the need for additional measures, such as exempting the least developed countries from tariff peaks and tariff escalation and removing all non-tariff barriers, "safety net" mechanisms to help least developed countries overcome the transitional difficulties in the aftermath of the Uruguay Round, the provision of adequate financial support and debt relief.

11. The third United Nations Conference on the Least Developed Countries will provide the international community with a forum for undertaking a comprehensive assessment of the overall development problematique of the least developed

countries and for launching a new action programme for the first decade of the coming century, with a view to promoting their long-term economic and social development and accelerating their integration into the international economic and trading system. As called for in General Assembly resolution 50/103, we request the current session of the General Assembly to finalize its decision on the time-frame, venue and the preparatory process of the third United Nations Conference on the Least Developed Countries, proposed to be held in the year 2000. The Trade and Development Board, at its annual session next month, should provide necessary inputs to the General Assembly regarding the preparatory activities for the Conference and consider issues that could form the core of its substantive agenda.

12. The United Nations must revamp itself to accord high priority to poverty eradication measures. While welcoming the efforts of the Secretary-General to assign priority to the least developed countries, we stress that the United Nations should significantly enhance its support to the least developed countries from its present level. We hope that the United Nations system after its reform, will be adequately equipped to take on additional responsibility concerning the least developed countries. We also believe that the bulk of the expected savings from the reform process will be earmarked for development activities and that high priority be accorded to least developed countries in their allocation.

13. We reaffirm the central role of the United Nations Conference on Trade and Development within the United Nations system in dealing with issues concerning the least developed countries and emphasize that it be adequately strengthened to discharge its mandates in regard to the least developed countries. We also ask the relevant funds and programmes and the regional commissions to attach special importance to the least developed countries in their activities. In particular, the Office of the Special Coordinator for the Least Developed, Land-locked and Island Developing Countries should be provided with required resources for effective discharge of its responsibilities.

14. We welcome the outcome of the Microcredit Summit, held in Washington, D.C., from 2 to 4 February 1997, which launched a global movement to reach 100 million of the world's poorest families, especially women, with credit for self-employment and other financial and business services by the year 2005. We recognize that microcredit programmes are a key strategy in promoting self-employment, income generation, eradication of poverty and empowerment of people, particularly women, and attaining better social justice through facilitating access to credit by the poor. In order to reach the goal of the Summit, we need to establish new micro-lending institutions for facilitating access to credit to people living in poverty and strengthen such existing institutions. We call on all regional and international institutions working to eradicate poverty to come forward to help us attain the goal of the Summit.

15. We express our gratitude to Her Excellency Sheikh Hasina, Prime Minister of Bangladesh, for continuing substantive communications on behalf of the least developed countries, with the Heads of State and Government of the G-7 countries. We are convinced that this standing arrangement for such a dialogue will continue to prove to be greatly beneficial to the least developed countries. We would like to request Her Excellency the Prime Minister to continue her dialogue with the leaders of the G-7 countries and with other development partners, with a view to bringing to their attention issues of particular concern to the least developed countries.

UNITED
NATIONS

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General Assembly

Distr.
GENERAL

A/C.2/52/4
20 October 1997

ORIGINAL: ENGLISH

Fifty-second session
SECOND COMMITTEE
Agenda item 95

MACROECONOMIC POLICY QUESTIONS

Letter dated 17 October 1997 from the Permanent Representative of Belgium to the United Nations addressed to the Secretary-General

I have the honour to transmit to you the text of the communiqué issued by the Interim Committee of the Board of Governors of the International Monetary Fund, held on 21 September 1997 at Hong Kong, China, under the Chairmanship of Belgium.

I should be grateful if you would have this letter and its attachments distributed as a document of the United Nations under agenda item 95, "Macroeconomic policy questions".

(Signed) Alex REYN
Ambassador
Permanent Representative

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ANNEX

Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund

1. The Interim Committee held its forty-ninth meeting at Hong Kong, China, on 21 September 1997 under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium (see appendix II for attendance).

2. The Committee welcomed the generally favourable prospects for the continued expansion of world output and trade. There are, nevertheless, risks that confront individual countries and that could also affect the world economy, if not decisively addressed.

- In the advanced economies as a group, growth with low inflation is projected to continue. However, sustained fiscal consolidation remains a challenge for many countries, requiring resolute policies over the near and medium term. Exchange rates among the major currencies should reflect economic fundamentals, bearing in mind the importance of avoiding large external imbalances. In countries that have reached high levels of resource use, including the United States, monetary policy will need to guard against the re-emergence of inflation. In continental Europe, monetary policy should remain consistent with sustained expansion of domestic demand. The challenge for Japan is to achieve the objective of domestic demand-led growth with a supportive stance of monetary policy, while proceeding vigorously with its structural reform programme and further consolidating its fiscal position over the medium term. High levels of structural unemployment in several European countries point to the pressing need for more determined efforts to increase efficiency and adaptability in labour and product markets and to reform tax, social benefits and other entitlement systems.

- The growth performance and prospects of developing countries as a group have strengthened in recent years. However, further improvements are needed in many cases to achieve significant reductions in poverty. This highlights the need to maintain macroeconomic discipline and accelerate structural reforms, including "second-generation" reforms aimed at strengthening public administration and financial sector management, developing human capital, promoting basic infrastructure, and fostering a conducive and transparent environment for private investment.

- In some emerging market economies, large external imbalances and fragile banking systems have adversely affected investor confidence and have exacerbated the risks emanating from volatile capital movements.

- In the transition countries, growth has resumed following good progress, in most cases, with macroeconomic stabilization and

structural reforms. Strengthening growth performance depends on speeding up legal, institutional and other reforms that encourage private economic activity and investment. To safeguard and build upon the achievements thus far, inflation will in most cases need to be lowered further through disciplined macroeconomic policies.

3. The Committee welcomed progress made towards a successful European Economic and Monetary Union (EMU) that contributes to stability in the international monetary system. The economic convergence achieved in Europe and the strong commitment to start EMU on schedule constitute a sound basis for securing a smooth transition to the euro on 1 January 1999. The best way to ensure a solid and stabile EMU will be for its participants to demonstrate not only their commitment to the fiscal requirements of the Stability and Growth Pact but also their resolve to attack the root causes of Europe's high unemployment.

4. The Committee reaffirmed the vital contribution of globalization to economic growth worldwide. Adherence by all members to the policy guidelines set out in the Committee's Declaration on Partnership for Sustainable Global Growth is essential to ensuring that all share in the benefits of globalization. The Committee welcomed the recent adoption by the International Monetary Fund of guidelines on governance issues, as well as the ongoing efforts to enhance the soundness of financial systems, notably the establishment of the Core Principles of Effective Banking Supervision developed by the Basle Committee in conjunction with the supervisory authorities in a number of emerging market economies.

5. The Committee noted that recent disturbances in Asian financial markets have again underscored the importance for policy makers in all countries to ensure the internal consistency of macroeconomic policies, strengthen financial systems, and avoid excessive external deficits and reliance on short-term foreign borrowing. Although the impact of recent financial market turmoil on some of the countries affected is expected to result in a slowdown of growth in the near term, the countries' economic fundamentals remain solid and their longer-term outlook if favourable provided that the required adjustment policies are sustained. The Committee also noted that the recent Asian experience has illustrated that rising capital flows may require some adaptation of exchange rate arrangements to changing circumstances. Regardless of a country's exchange rate arrangement, the maintenance of appropriate macroeconomic and structural policies consistent with that arrangement remains crucial.

6. The Committee commended the Fund for its prompt and effective response to the events in Asia, welcomed the support provided by the region, and invited the Executive Board to examine what further lessons could be drawn for the Fund's work and to report its findings to the next meeting of the Committee. In this context, the Committee recognized that the recent developments raised a number of analytical issues, including on the prevention of crises and contagion effects. The Committee stressed the importance of openness and accountability of economic policy-making, and of transparency, to achieving policy credibility and confidence-building in a globalized environment. It would be useful for the Fund to work in this area, including the possibility of developing a code of good practices. Timely and accurate economic information are also needed to improve the functioning of markets. The Committee welcomed the Fund's Special Data Dissemination Standard and the recent voluntary release of press

information notices on the conclusions of Fund surveillance in individual members, making an important contribution to transparency. The Committee looked forward to the strengthening of the Fund's Special Data Dissemination Standard.

7. The Committee reiterated its view that an open and liberal system of capital movements, supported by sound macroeconomic policies and strong financial systems, enhances economic welfare and prosperity in the world economy. The Committee adopted a statement entitled "The liberalization of capital movements under an amendment of the Fund's articles", which is contained in appendix I, and considered that an amendment of the Fund's articles will provide the most effective means of promoting an orderly liberalization of capital movements consistent with the Fund's role in the international monetary system. The Committee required the Executive Board to accord high priority to completing its work and submitting a report and a proposed draft amendment to the Board of Governors.

8. The Committee welcomed the agreement reached by the Executive Board on both the size of the increase in quotas under the Eleventh General Review and on the method to be used to distribute the overall increase in quotas. The Committee agreed that:

- The present total of Fund quotas would be increased by 45 per cent;
- Seventy-five per cent of the overall increase would be distributed in proportion to present quotas;
- Fifteen per cent of the overall increase would be distributed in proportion to members' shares in calculated quotas (based on 1994 data), so as to better reflect the relative economic positions of members;
- The remaining 10 per cent of the overall increase would be distributed among those members whose present quotas are out of line with their positions in the world economy (as measured by the excess of their share in calculated quotas over their share in actual quotas), of which 1 per cent of the overall increase would be distributed among five members whose current quotas are far out of line with their relative economic positions, and which are in a position to contribute to the Fund's liquidity over the medium term.

The Committee requested the Executive Board to submit before the end of 1997 a proposed resolution for the approval of the Board of Governors to effect the agreed increases in quotas. The Committee reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh General Review.

9. The Committee welcomed the agreement reached by the Executive Board on an amendment of the articles to provide all members with an equitable share of cumulative special drawing rights (SDR) allocations through a special one-time SDR allocation amounting to SDR 21.4 billion, which will double the amount of SDRs already allocated. Accordingly, it recommends the adoption by the Board of Governors of the proposed resolution.

10. The Committee welcomed the recent progress made in the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, including the decisions, in principle, of the Executive Boards of the Fund and Bank to provide assistance to Uganda, Bolivia and Burkina Faso, and the preliminary discussions on Côte d'Ivoire, Guyana and Mozambique. The Committee encouraged countries that could qualify under the Initiative to expeditiously take the necessary adjustment measures to benefit from this special assistance.

11. The Committee welcomed the continuing efforts to help secure the resources needed to complete the financing of the Enhanced Structural Adjustment Facility and HIPC initiatives. It noted that in the light of the bilateral pledges received or in prospect and the need to continue making commitments under the HIPC Initiative, further steps to secure the timely funding of these initiatives would have to be considered soon.

12. The Committee will meet again in Washington, D.C., on 16 April 1998.

APPENDIX I

Statement of the Interim Committee on the liberalization of capital movements under an amendment of the articles

1. It is time to add a new chapter to the Bretton Woods agreement. Private capital flows have become much more important to the international monetary system, and an increasingly open and liberal system has proved to be highly beneficial to the world economy. By facilitating the flow of savings to their most productive uses, capital movements increase investments, growth and prosperity. Provided that it is introduced in an orderly manner and backed by both adequate national policies and a solid multilateral system for surveillance and financial support, the liberalization of capital flows is an essential element of an efficient international monetary system in this age of globalization. The central role of the International Monetary Fund (IMF) in the international monetary system, and its near universal membership, make it uniquely placed to help this process. The Committee sees the Fund's proposed new mandate as bold in its vision, but cautious in implementation.

2. International capital flows are highly sensitive, inter alia, to the stability of the international monetary system, the quality of macroeconomic policies and the soundness of domestic financial systems. The recent turmoil in financial markets has demonstrated again the importance of underpinning liberalization with a broad range of structural measures, especially in the monetary and financial sector, and within the framework of a solid mix of macroeconomic and exchange rate policies. Particular importance will need to be attached to establishing an environment conducive to the efficient utilization of capital and to building sound financial systems solid enough to cope with fluctuations in capital flows. This phased but comprehensive approach will tailor capital account liberalization to the circumstances of individual countries, thereby maximizing the changes of success, not only for each country but also for the international monetary system.

3. These efforts should lead to the establishment of a multilateral and non-discriminatory system to promote the liberalization of capital movements. The fund will have the task of assisting in the establishment of such a system and stands ready to support members' efforts in this regard. Its role is also the key to the adoption of policies that would facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises.

4. In light of the foregoing, the Committee invites the Executive Board to complete its work on a proposed amendment of the Fund's articles that would make the liberalization of capital movements one of the purposes of the Fund, and extend, as needed, the Fund's jurisdiction through the establishment of carefully defined and consistently applied obligations regarding the liberalization of such movements. Safeguards and transitional arrangements are necessary for the success of this major endeavour. Flexible approval policies will have to be adopted. In both the preparation of an amendment to its articles and in its implementation, the members' obligations under other

international agreements will be respected. In pursuing this work, the Committee expects IMF and other institutions to cooperate closely.

5. Sound liberalization and expanded access to capital markets should reduce the frequency of recourse to Fund resources and other exceptional financing. Nevertheless, the Committee recognizes that, in some circumstances, there could be a large need for financing from the Fund and other sources. The Fund will continue to play a critical role in helping to mobilize financial support for members' adjustment programmes. In such endeavours, the Fund will continue its central catalytic role while minimizing moral hazard.

6. In view of the importance of moving decisively towards this new worldwide regime of liberalized capital movements, and welcoming the very broad consensus of the membership of these basic guidelines, the Committee invites the Executive Board to give a high priority to the completion of the required amendment of the Fund's articles of agreement.

APPENDIX II

Interim Committee attendance

21 September 1997

Chairman

Philippe Maystadt, Deputy Prime Minister, Minister of Finance and Minister of External Trade of Belgium

Managing Director

Michel Camdessus

Members or Alternates

Ahmad Mohd Don, Governor, Bank Negara Malaysia

Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia

Erik Åsbrink, Minister of Finance, Sweden

Gordon Brown, Chancellor of the Exchequer, United Kingdom of Great Britain and Northern Ireland

P. Chidambaram, Minister of Finance, India

Carlo Azeglio Ciampi, Minister of the Treasury, Italy

Peter Costello, Treasurer, Australia

Dai Xianglong, Governor, People's Bank of China

Rodrigo de Rato Figaredo, Second Vice-President and Minister of Economy and Finance, Spain

Marcel Doupamby Matoka, Minister of Finance, Economy, Budget and Equity Financing, Gabon

Sergei Dubinin, Chairman, Central Bank of the Russian Federation

Roque B. Fernández, Minister of Economy and Public Works and Services, Argentina

Abdelouahab Keramane, Governor, Banque d'Algérie

Sultan Bin Nasser Al-Suwaidi, Governor, United Arab Emirates Central Bank (Alternate for Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates)

Pedro Sampaio Malan, Minister of Finance, Brazil

Justin C. Malewezi, Vice-president and Minister of Finance, Malawi

Gordon Thiessen, Governor, Bank of Canada (a.m. session) and James A. Judd, Assistant Deputy Minister, International Trade and Finance, Department of Finance, Canada (p.m. session) (Alternates for Paul Martin, Minister of Finance, Canada)

Jean-Claude Juncker, Prime Minister and Minister of Finance, Luxembourg (a.m. session) and Wolfgang Ruttenstorfer, Secretary of State, Federal Ministry of Finance, Austria (p.m. session) (Alternates for Philippe Maystadt, Deputy Prime Minister, Minister of Finance and Minister of External Trade, Belgium)

Hiroshi Mitsuzuka, Minister of Finance, Japan

Robert E. Rubin, Secretary of Treasury, United States of America

Dominique Strauss-Kahn, Minister of Economy, Finance and Industry, France

Kaspar Villiger, Minister of Finance, Switzerland

Theo Waigel, Federal Minister of Finance, Germany

Gerrit Zalm, Minister of Finance, the Netherlands

Observers

Yilmar Akyuz, Chief, Macroeconomics and Development Policies Branch, United Nations Conference on Trade and Development

Andrew D. Crockett, General Manager, Bank for International Settlements

Yves-Thibault de Silguy, Commissioner for Economic, Monetary and Financial Affairs, European Community

Driss Jettou, Chairman, Joint Development Committee

Donald J. Johnston, Secretary-General, Organisation for Economic Cooperation and Development

Rilwanu Lukman, Secretary-General, Organization of Petroleum-Exporting Countries

Rubens Ricupero, United Nations

Jesús Seade, Deputy Director-General, World Trade Organization

James D. Wolfensohn, President, World Bank

UNITED
NATIONS

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General Assembly

Distr.
GENERAL

A/C.2/52/5
22 October 1997
ENGLISH
ORIGINAL: ENGLISH/SPANISH

Fifty-second session
SECOND COMMITTEE
Agenda item 12

REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Letter dated 21 October 1997 from the Acting President of the General Assembly to the Chairman of the Second Committee

I have the honour to enclose, for appropriate action by your Committee, a letter dated 29 September 1997 addressed to me by the President of the Economic and Social Council, to which is attached a letter dated 22 August 1997 addressed to the President of the Council concerning the graduation of Vanuatu to non-least developing country status.

(Signed) Manual TELLO
Acting President

97-28175 (E) 241097 251097

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Annex

LETTER DATED 29 SEPTEMBER 1997 FROM THE PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL TO THE PRESIDENT OF THE GENERAL ASSEMBLY

I am enclosing a copy of a letter dated 22 August 1997 regarding the graduation of Vanuatu to non-least developing country status, which was addressed to the President of the Economic and Social Council from the Prime Minister of Vanuatu.

At its 34th plenary meeting, on 18 July 1997, the Council adopted decision 1997/223 in which the recommendations contained in the report of the Committee for Development Planning on its thirty-first session concerning the list of least developed countries were endorsed. In paragraph (a) of that decision the Council recommended that "Vanuatu be graduated from the list with immediate effect".

You may wish to bring this matter to the attention of the General Assembly.

(Signed) Vladimir GALUSKA

Appendix

LETTER DATED 22 AUGUST 1997 FROM THE PRIME MINISTER OF VANUATU TO THE PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL

Re: Proposed graduation of Vanuatu to non-least developed country status

My Government notes with concern the proposal by the Committee on Development Planning, following its triennial review at its 1997 session, to have Vanuatu graduate out of the list of least developing countries.

My Government urges the Economic and Social Council to defer the review by the Committee of the status of Vanuatu as a least developed country until the year 2000. The following reasons are advanced in support of our position on this matter:

We have serious doubts about the quality of the statistics used for the exercise.

We have had no technical inputs into the computation exercise, neither were we invited to make observations upon the qualitative judgements which had to be made in the face of inadequacies with regard to available statistics and the set of indicators employed.

We are, as part of our recently finalized comprehensive reform programme, focusing upon domestic capacity strengthening in all sectors including that within the Statistics Office. The latter will result in improved sets of statistical series, including those such as GDP and GNP and sectoral shares, life expectancy, mortality, literacy, energy consumption, primary and secondary school enrolment, sectoral employment, export concentration and caloric intakes, which are needed for a fair assessment of our position as a member of the group of least developed countries. Given expected further improvement and refinement in these statistics and our wish to participate fully and constructively with the Committee, we believe, as mentioned above, that such an assessment should be deferred and undertaken in the year 2000 when confidence in the quality of the exercise by all parties, including ourselves, is likely to be at a higher level.

I look forward to your favourable and sympathetic response to the above proposal.

(Signed) Honourable RIALUTH Serge Vohor
Prime Minister

UNITED NATIONS

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General Assembly

Distr.
GENERAL

A/C.2/52/6
30 October 1997

ORIGINAL: ENGLISH

Fifty-second session
SECOND COMMITTEE

Letter dated 28 October 1997 from the Chairman of the Fifth Committee to the Chairman of the Second Committee

I wish to draw your attention to the concerns raised repeatedly by the delegations of the Fifth Committee both during formal meetings and informal consultations at the current session of the General Assembly regarding the tendency of substantive committees to involve themselves in budgetary and administrative matters.

In this connection, I should like to refer to General Assembly resolution 45/248 B (part VI) on the procedures for administrative and budgetary matters, whereby the Assembly reaffirmed that the Fifth Committee is the appropriate Main Committee of the General Assembly entrusted with responsibilities for administrative and budgetary matters as well as the role of the Advisory Committee on Administrative and Budgetary Questions. In the same resolution, the Assembly expressed its concern at the tendency of its substantive committees and other intergovernmental bodies to involve themselves in administrative and budgetary matters.

Further, rule 153 of the rules of procedure of the General Assembly states:

> "No resolution involving expenditure shall be recommended by a committee for approval by the General Assembly unless it is accompanied by an estimate of expenditures prepared by the Secretary-General. No resolution in respect of which expenditures are anticipated by the Secretary-General shall be voted by the General Assembly until the Administrative and Budgetary Committee (Fifth Committee) has had an opportunity of stating the effect of the proposal upon the budget estimates of the United Nations."

Accordingly, when a Main Committee is about to adopt a draft resolution involving expenditures recommended for approval by the General Assembly, the Secretary-General submits a statement of programme budget implications (PBI). It goes without saying that the primary responsibility of your Committee, in respect of the consideration of a statement by the Secretary-General on

programme budget implications, is to review the programmatic aspect of it, leaving the consideration of the financial aspects to the Fifth Committee.

Taking into account the rules of procedure of the General Assembly and the various General Assembly resolutions (41/213, 42/211 and 45/248), reaffirming the role of the Fifth Committee as the competent Main Committee that considers all reports of the Secretary-General with administrative and financial implications and the related reports of ACABQ, I would appreciate it very much if, in the course of your consideration of any proposal, the financial aspects were left aside for the appropriate and necessary decision of the Fifth Committee.

I should be grateful if the above concerns and necessary clarifications are brought to the attention of your Committee and taken into account in your deliberations on draft proposals.

(Signed) Anwarul Karim CHOWDHURY
Chairman
Fifth Committee of the General Assembly